



The Fourth Indonesian Tax Reform of Year 2008

On 23 September 2008, the Government of the Republic of Indonesia promulgated Law Number 36 Year 2008 concerning the Fourth Amendment of Income Tax Law 2004.

The major changes contained in this law are as follows:

1. Tax object

Tax object is extended. It shall include surplus derived by the Indonesia's Central Bank (Bank Indonesia)

2. Definition of permanent establishment:

Term permanent establishment is expanded. It shall include:

- a) warehouse;
- b) space for promotion and sales;
- c) computer, electronic agent, or automatic equipment owned, rented, or used for the execution of electronic transaction for carry on business through internet.

3. Tax deductible cost

Tax deductible cost is extended. It shall include:

- a) donation in the frame work of overcoming national disaster and social infrastructure;
- b) donation for facilities of education, research, and development carried out in Indonesia;
- c) donation in the frame work maintaining sports or religious matter which is imperative for believers of religion recognized in Indonesia.

4. Tax rates

- a. Corporate Income Tax rate:

Old Law		Law Number 36 Year 2008
Taxable Income	Tax rate	Applicable tax rate which shall effective as of 1 January 2009 is a single rate of 28%. This tax rate shall become 2% in 2010.
Up to IDR 50,000,000	10%	
Exceeding IDR 50,000,000 up to IDR 100,000,000	15%	
Exceeding IDR 100,000,000	30%	

- b. Individual Income Tax rate:

Old Law		Law Number 36 Year 2008	
	Tax Rate		Tax rate
Up to IDR 25,000,000	5%	Up to IDR 50,000,000	5%
Exceeding IDR 25,000,000 up to IDR 50,000,000	10%	Exceeding IDR 50,000,000 up to IDR 250,000,000	15%
Exceeding IDR 50,000,000 up to IDR 100,000,000	15%	Exceeding IDR 250,000,000 up to IDR 500,000,000	250%
Exceeding IDR 100,000,000 up to IDR 200,000,000	25%	Exceeding IDR 500,000,000	30%
Exceeding IDR 200,000,000	35%		

- c. Corporate resident taxpayer which is 40% of its whole paid up capital is sold in a stock exchange in Indonesia and fulfilling other certain requirements shall have 5% tax rate lower than 28%.
- d. The highest tax rate on dividend derived by resident individual taxpayer is 10%. The dividend tax is final in nature. Under the old law, the highest tax rate is 35%.



- e. Withholding tax rate on any consideration for service is 2% of gross income. Under the old law such tax rate is 15% of estimated net income.
- f. Tax rate for taxpayers who derives gross income no more than IDR 50,000,000,000 and taxable income no more than IDR 4,800,000,000 shall entitle a tax facility in a form of tax rate deduction amounting to 50% of the normal tax rate.

5. Amortization

Amortization of expenditure for deriving/buying intangible property shall be started at the month the expenditure is executed. Under the old law it was started in the year the expenditure was executed.

6. Non-taxed income for resident individual taxpayer

Description of parties who entitle non taxed income	Old Law	Law Number 36 Year 2008
	Amount of Non taxed income (IDR)/	Amount of non taxed income (IDR)
Non taxed income for taxpayer himself	15,840,000/year	13,200,000/year
Additional non taxed income for married taxpayer	1,200,000/year	1,200,000/year
Additional non tax income per family member related by blood and by marriage in a straight line, and adopted children as full dependent, at maximum of three	1,200,000/year*	1,200,000/year*
Additional non taxed income for spouse whose income is combined with income of her husband	1,320,000/year	1,200,000/year

*) For each family member.

7. Tax penalties

a. Tax penalty for withholding tax on employment income

Withholding tax on employment income of employees, who do not have a Tax Identification Number, shall be penalized 20% form the normal rate.

b. Tax penalty for withholding tax on import and other certain activities

Withholding tax on import and other certain activities of taxpayers, who do not have a Tax Identification Number, shall be penalized 20% form the normal rate.

c. Tax penalty for withholding tax on interest, dividend, royalty, and consideration for services

Withholding tax on withholding tax on interest, dividend, royalty, and consideration for services derived by resident corporate taxpayers and permanent establishments, who do not have a Tax Identification Number shall be penalized 100% from the normal tax rate.

8. Taxation of oil and gas industries

Taxation of oil and gas industries shall be governed by a Government Regulation.



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